3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

Austria her financial independence. It also acted as a stimulus to trade and a check, though a purely temporary check, on inflationary tendencies. Dr. Renner has described how the legislation re-establishing the schilling lay for weeks in his drawer awaiting the re-unification of the country. So long as uncertainty regarding the currency continued, merchants preferred to hold on to their limited stocks of goods, and trade was restricted. So long as Austria continued to use German money, marks flowed across the frontier and prices were inflated. An immediate result of conversion was a substantial fall in the black-market prices of commodities and foreign currencies.

The provisions of the Counter and Schilling Laws blocking 60 per cent of the 'old' and 'new accounts' were interim, in so far as no indication was given as to the final fate of the blocked credits. This question was settled by the Currency Protection Law of the 19th of November 1947.

By the autumn of 1947 serious inflationary tendencies had begun to reveal themselves. There was a growing belief that currency reform was necessary, and rumours that it was imminent made the situation worse. Goods were hoarded, prices rose, and holders of capital showed anxiety to invest at any cost. In introducing the Currency Protection Law the Government's main purpose was to stabilize the schilling by reducing note circulation and finally liquidating the blocked accounts, from which there had been increasing demands for releases during recent months.

The law in its full details was very complex. But its main provisions were as follows. The existing currency was to be replaced. Every individual could exchange his note-holdings on the basis of three old schillings for one new, although each person was allowed 150 schillings at the rate of 1 for 1. Blocked accounts were forfeited to the State, and the unblocked portions of the 'old accounts' were converted into 2 per cent Government bonds. All free accounts, which included deposits made between the 23rd of December 1945 and November 1947, retained their full value, but, in so far as they exceeded 1,000

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which the debts themselves had been incurred. The Government received payment not only for taxes that were already due but for taxes that were to be levied during the coming year, though it naturally gave notice that it could not accept payments in advance. The Austrians appreciated the comic side of the situation, but many realized that the comedy was being played at the expense of their country's interests. It was estimated that evasion and manipulation reduced the deflationary effect of the law by over a billion schillings.

Apart from the way in which it was introduced, the Defence Protection Law was no final solution of the inflationary problem. It was not accompanied by the strong financial measures necessary to ensure financial stability and restore full confidence in the schilling. Little or no inducement was given to the Austrian people to resume the habit of saving. But in the winter of 1947–8 the time had not yet arrived for a more comprehensive settlement. Austria's political situation was uncertain; her economic position still precarious. It is probable that the law, though a half-measure, went as far as was reasonable at the time.

The immediate result was a decisive check to inflationary tendencies. On the 7th of November the note circulation and the free accounts at the National Bank amounted to 9 billion schillings in all. Immediately after the law went into effect the combined total had fallen to 5·6 billion schillings, and at the end of January it had only risen by 100 million schillings. For many Austrians the currency reform marked the beginning of real recovery, in spite of the financial sacrifices it had imposed. Goods became more plentiful and prices fell. By Easter 1948 new signs of hope could be seen in the faces of the long-suffering Viennese. The following October, less than ten months after the reform became effective, black-market food prices, which in November 1947 had been about twenty-three times as much as the official prices, were only three to five times as high. In the case of luxuries, such as cigarettes, the black-market and official prices were very close to each other. These developments brought new confidence and had a

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stimulating effect upon trade. There is no doubt that the currency reform made a substantial contribution to the economic revival associated with the beginning of Marshall Aid.

The social results of the reform were less fortunate. The law, as has been seen, made limited concessions to the needy, but they were of small help to many who were dependent on their savings and whose earning days were past. On the other hand, the treatment of the well-to-do was very uneven. The holders of large bank balances came off worst, while the owners of real estate and valuables, in spite of the capital levy, were more fortunate. The most unfair feature of all was that industrialists, who were in the best position to renew their wealth, could retain it most easily in the form of stored goods. When currency adjustments become necessary, they are always accompanied by injustice, and the results mentioned were, to some extent, the inevitable consequences of inflation. But more might have been done by the Government to help those least able to make their influence felt and to help themselves.

Throughout the years from 1945 and 1951 the Austrian economy was subject to persistent inflationary pressure. It was checked very temporarily by the Schilling Law and restrained for the best part of two years by the currency reform. But the forces making for inflation were never absent, and the political and economic climate was such that the Government did not consider itself in a position to attempt a fundamental cure. The schilling steadily lost value, until in 1951 it was worth about one-seventh of what it had been in 1945. The following table[1] shows the rise in the cost-of-living index between 1945 and 1951:—

1945 April	100·0
1946 April–December	125·7
1947 „ „	248·1
1948 „ „	378·0
1949 „ „	484·3
1950 „ „	547·7
1951 „ „	700·1

[1] Prepared by the Austrian Institute of Economic Research.

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458 435 467

Such conditions, combined with the hardships that have already been described, carried with them the danger of serious unrest, and it is fortunate that a method was worked out in 1947 by which wages as a whole could keep pace with the steadily rising prices. The method, which was used each year between 1947 and 1951, had its good and bad sides. On the one hand, it contributed to the steady and controlled nature of the inflationary process and ensured the harmonious settlement of the wage question. On the other hand, after the first two years, when its effects were predominantly good, it accentuated inflationary tendencies.

The system involved the co-operation of the Government, the trade unions, and the Chambers of Industry, Agriculture, and Labour. The representatives of the employers and the employees in the Chambers and the trade unions worked out, in consultation with the Government, a general agreement covering the prices of basic necessities and the wages of the different classes of workers in all branches of the economy. The proposals were then submitted to Parliament for approval.

This procedure was only possible owing to the spirit of co-operation and conciliation called forth by the emergency. Austria would not have recovered as soon as she did from the post-War economic crisis had her revival been held back by serious industrial disputes, and the political consequences of such disputes would have endangered the country's unity. The Coalition Government fully realized the position, and its broad composition fitted it well for a mediatory role. The employers' representatives and the trade unions were also aware of the dangers. The common sense and intuition of the Austrian people led them to support their leaders.

The country was fortunate both in the organization of its trade unions and in the nature of their leadership at the time. The fact that the Austrian Federation of Trade Unions had been established on an all-party basis in 1945 was of decisive importance in the price–wage negotiations. It meant that in spite of the Socialist preponderance among union members every party was represented on the workers' side in the dis-

3: Hiscocks G-4, 5 (1946-1949) 1953 EK1 Austria EK1

cussions. Herr Johann Böhm, President of the Federation, revealed himself as one of the big personalities in post-War Austria. Like Ernest Bevin in war-time England, he combined loyalty to the workers whom he represented with breadth of outlook and courageous patriotism.

Between the spring of 1946 and the summer of 1947 wages followed prices upwards in a dangerous spiral movement, though they lagged slightly behind prices and were in reality still farther behind owing to the need to purchase food on the black market. Yet the prices charged for such public utilities as gas, electricity, and transport were below the level that production costs justified. And official food prices were unreasonably low, whether judged by world levels or by the cost of producing home-grown food. The two main purposes of the First Price–Wage Agreement were to check the spiral movement, which showed signs of getting out of control, and to make an adjustment in wages to allow for the higher food prices and public utility rates that were approved at the same time.

The Agreement took effect on the 1st of August 1947. Food prices were raised on an average by 58 per cent, while the rise in public utility rates varied from 50 to over 100 per cent. Wage and salary increases varied considerably between different categories. But, on the whole, salaried employees obtained less than wage-earners, and skilled workers less than unskilled; that is to say, the poorer paid received the greater proportionate increases. In addition, on the 1st of August the Government decided on certain tax-relief measures for those with small incomes. This levelling tendency was a characteristic of all the Price–Wage Agreements except the last. It was justified as a protective measure, when the total supplies available to the Austrian people were scarcely sufficient to cover their basic needs. But it reduced incentive to workers to earn promotion to a higher wage category by their own efforts and became less defensible, as economic conditions improved.

By the terms of the Agreement, individual trade unions renounced their right, while it lasted, to take independent action

With the enactment of June 25,1946, the Austrian National Bank was authorized to control foreign exchange transactions. For the time being the rate of exchange had been fixed at the rate decreed by the occupation powers: 1 dollar = 10 schillings and 1 pound = 40 schillings. 652 453 457

A gratifying step towards free foreign exchange relations was the release of blocked Austrian assets in the USA in 1946, and later on, the return of the gold reserve of the Austrian National Bank which had been transferred by the German administration. As a first step the United States had returned to the Austrian Federal Government 4,450 kg gold, representing a part of the gold reserve, which in 1938 amounted to 78,000 kg. On November 4, 1947, the Austrian envoy to London signed a protocol. According to its terms Austria was awarded an additional 26,187 kg fine gold by the Reparation Commission in Brussels. 457

With this substantial gold reserve on hand the Austrian Federal Government progressed a step further with its currency policy and enacted the Währungsschutzgesetz (a measure to protect currency), reducing the aggregate currency circulation almost 40 percent. For the intended reform, aimed at reducing currency in circulation as well as funds deposited with bank and credit institutions, the cited federal law of November 19 1947 (confirmed by the Allied Commission for Austria on December 4, 1947, and enforced on December 10, 1947), was important in the following three points: 652

(a) Through a reduction of the aggregate currency volume (money in circulation plus deposited funds) a corresponding reduction of prices, and, last but not least, a restriction of black market trades could be accomplished;

(b) The general business moral could be improved; and

(c) Through a cancellation of the old blocked accounts (in accordance with the first laws covering currency policies in 1945) an elimination of economically untenable positions, and therewith, the first step towards a reconstruction of the credit system in the interest of the entire economy could be undertaken.

With the enforcement of this law a new trend in financial matters developed. The inflationary influences prevailing until then were curtailed while, financially, the prerequisites necessary for the reconstruction of the Austrian economy were set up. Although the circulating means did not become scarce to the extent 458 652

458 originally anticipated, due to the prolonged interval
652 between the publication and the enforcement of the law, the following months nevertheless did produce some economic results (lowering of prices, elimination of black markets and a general slackening of the purchasing psychosis).

727 In the meantime the occupation powers,
648 particularly the American and the British elements,
457 had introduced relief measures ameliorating need and want among the Austrian population. One of the first was initiated by UNRRA, whereby, in connection with a number of special credits, a "subsistence level" was achieved. Additional assistance measures followed. On June 26, 1947, an agreement between the United States and Austria provided a new form of assistance, substituting for the UNRRA aid which was ending. For this "Austria Assistance" about 85 million dollars were provided. With these contributions of foodstuffs, commodities and machines, it was possible to start the reconstruction of the ruined communication system and to restore a modest production line.

Additional alleviation was obtained from a credit granted by the British Government for purchase of consumer goods. In October 1947, the Export Import Bank at Washington, D. C., granted Austria a credit amounting to 13 million dollars, of which amount 8 million dollars were placed at the disposal of the heavy and metal industry, 4 million dollars at the disposal of the chemical industry for purchases of raw materials and as equipment, while the remaining 1 million dollars served other purposes (freights, etc.).

652 Of particular importance was the establishment
727 of a regular budget. The first federal estimates (1946-1947) were, in view of conditions, only of an emergency nature.

The item of occupation costs was from the start a rather burdensome one. Until May 1946 these costs were covered by an additional issuance of bank notes. Beginning June 1946, all expenditures not covered by current incomes (including occupation costs as well as costs arising in connection with the welfare of displaced persons) were paid for with short-term treasury bonds, taken by banks, or with cash reserves. Later
651 (July 1948) the expenditures of the occupation costs were met fiscally by an additional tax (occupation cost tax) to the income and wage tax.

452
453 The "Schaltergesetz" decreed the reopening of the banks, closed since April 1945, and, for the time being, a blocking of 60 percent of old deposits (i.e., funds deposited prior to the reopening of banks). The remaining 40 percent could be used, within restricted limits, for vital economic purposes. The "Schillinggesetz" went a step further. Extending the variously applied monetary measures, enforced within the Russian zone, to Austria as a whole, it established the basis for the Austrian (schilling) currency under the sole control of the Austrian National Bank and blocked 60 percent of all deposits accumulated prior to December 22, 1945. This was a monetary measure to [458] effect a diminution of the upwards trend of prices through a curtailment of money in circulation. The remaining 40 percent were disposable, partly free partly non-negotiable andpartly restricted to certain uses. Funds deposited after December 22, 1945, were free of any restrictions.

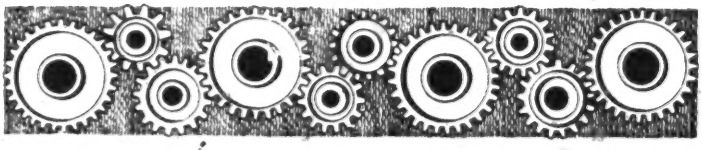
The third and most important step towards a currency consolidation occurred with the enforcement of the "Währungsschutzgesetz," which had to accomplish a two-fold task. One was the diminution of currency in circulation (notes in circulation plus free contingent liabilities) amounting to 9 billion schillings prior to the enforcement, by a skimming-off process of notes in circulation and by a cancellation (diminution of deposited currency) of blocked funds accumulated with banks as a result of prior enactments. The other task was to prepare a settlement of the unbalanced statements of banking institutions reflecting the war and postwar losses. Thus the prerequisites for a reorganization of the entire credit apparatus were created.

Particulars about the technical procedure of the curtailment of the currency circulation in accordance with the "Währungsschutzgesetz," will not be discussed here. With regard to deposited funds, all blocked accounts established in accordance with the "Schaltergesetz" and the "Schillinggesetz" of 1945 were cancelled. The remaining, restricted disposable 40 percent balances were converted into demands against the federal treasury. [To cover the demand against the federal treasury, following the skimming of accounts, the federal ministry of finance was empowered to issue "Bundesschuldverschreibungen" (treasury bonds) or to enter these demands into a newly created "Bundesschuldbuch" (record of federal obligations).] The various

454 With the gradual diminution of the ERP aid,
434 the raising of new capital gains significance. It is a question made particularly difficult inasmuch as prices rose on the world markets during the last half year and the decline in the purchasing power of the schilling caused by the lag in wages. (Running parallel is the sharp decline of the value of savings deposits.) A number of other factors retard the creation of savings capital: the lowered real wages, the long pent-up consumer demand of the broad masses, the lack of investment-seeking capital from insurance institutions which, as holders of collective saving, normally placed substantial amounts at the disposal of the capital market, the use of retained profits for self-financing of investments and, last but not least, the stress of fiscal necessities.

Naturally, Austria shares these developments with other European nations. Even France, the country of savers, according to latest reports has experienced a decline in savings to 4.3 per cent of the national income.

458 Despite progressive credit extension (which
[652] is, qualitatively as well as quantitatively, being held under control by measures adopted during the first quarter of 1951), in contrast to other economically stronger nations, there seems to be no dangerous monetary development even though the political situation in the world in the fall of 1950 caused an increase in the volume of money and payments.



THE AUSTRIAN ECONOMY AFTER 1918.

439 The disintegration of the Dual Monarchy was immediately followed by severe economic disturbances. These were by no means small, even in comparison with the position after 1945. The heart of Austria, with its highly developed trade, was suddenly completely cut off from its former inland sources of raw products and markets. The oilfields of Galicia, like the important coal deposits in the lands of Bohemia, Moravia and Silesia, were lost, having fallen to the Succession States, and the loss of the agricultural surplus areas produced a threat of famine.

433 439 The Succession States—Czechoslovakia, Yugoslavia and Hungary—each attempted to build up a national economy, to balance its economic structure and to make itself as far as possible independent of raw and semi-manufactured materials and finished goods. A division of labour which had grown during decades into one complete organism was thus broken up, to the detriment of all peoples living within this territory. For Austria this meant that an intensive system of internal trading suddenly turned into one of foreign trade, where great difficulties had to be overcome. At first even inter-state transport communications were further complicated by barriers created by the Succession States.

728 433 458 The nadir of those days was reached with the signing of the Treaty of Saint-Germain, which revealed the full extent of the catastrophe. Austria's tragic path at that time was blocked by a series of apparently insurmountable obstacles to the procuring of essential foodstuffs, coal and raw materials. Inflation to an extent never before seen set in and led to a selling-out of national assets. The unfavourable basis of the rump economic structure as well as the instability of Austria's relations with foreign countries seemed to doom all her efforts to failure.

648 457 After difficult but very skilfully conducted inter-state negotiations, the governments of Czechoslovakia, France and Italy were persuaded to advance credits to the Austrian Republic. The Allied Powers convinced themselves that Austria, if help came from the League of Nations, would exert her own energies to the utmost in order to put her finances and trade on a sound footing. The will of the Austrian Government to stabilise the budget, demonstrated by the previous abolition of food subsidies (in December 1921), did much to assist these efforts. The Financial Recovery Plan which was signed at Geneva on October 4th, 1922, proved the turning

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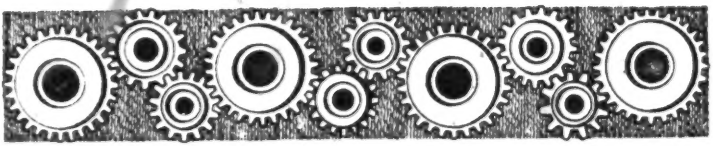


439 territories, Austrian producers were forced to adapt their output to these new conditions. This was of course only possible through the painful process of making certain changes in the economic structure.

439 The main bases of Austrian trade, as vital then as now, were:

135 a) the abundance of forests which ensure timber for export as well as for the furniture-making and paper industries.

b) The deposits of iron ore which form the basis of iron and steel production and the iron-working industry.

c) The wealth of water in the alpine districts, constituting an extensive source of power which is being increasingly exported in addition to supplying Austrian industry with current.

d) The recently-discovered inland oil fields (at Zistersdorf).

e) The fashion and luxury-article industry, an export factor of increasing importance.

f) The credit balance of services (tourist trade and transit trade).

433 It is one of the characteristics of industrial-commercial production that Austria, as a result of her comparative lack of capital, should be at a disadvantage whenever it is a question of mass production. But wherever there is a chance for painstaking finishing, special skill or workmanship, as well as good taste and original ideas on the part of the producer to play a rôle, the prospects of success are excellent. It is not only, as is often mistakenly imagined, the fashion and luxury industries to which this applies, but all the many branches of manu-

472 facturing where it is the quality of the work which counts. These factors are strengthened by the prevalence of small concerns in Austria. Factories with up to 100 employees amount to 75 per cent of the total, those with 100 to 1000 employees to a little over 20 per cent, and the factories employing over 1000 persons to only 4·4 per cent.

652 After the stabilisation of the currency, production and export trade showed

433 a favourable increase between the years 1923 and 1929. Production rose during this time by nearly one third. Then followed the general slump, especially

458 serious for Austria on account of her great dependence on export. The development which had begun so hopefully was now brought to a standstill through the external crisis.

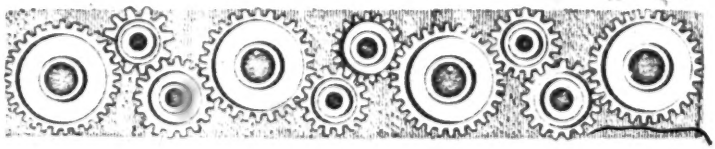
The increase in production resulting from all these measures was bound to increase the difficulties of marketing during the slump. In pig-raising it at last became necessary to resort to curtailment of output (prohibition of pig-raising for the market). An attempt was also made to increase the costs of cattle-rearing and thus limit the supply by raising the so-calledli cence fee for the import of fodder.

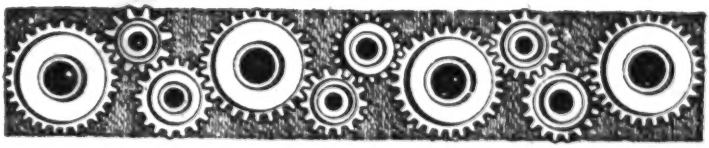
As a stimulant of milk production, a milk-equalisation fund was created to content with sales difficulties, through which the means for the export of dairy products at prices below production costs were raised by the imposition of a tax on fresh milk.

Thus it came about that in the 1930s Austrian products such as standard butter, high grades of cheese and cream could compete successfully on the markets with the dairy products of such leading countries as Denmark, Switzerland and Holland. The western alpine provinces especially profited by this arrangement, but at the same time a great demand was created for home milk products throughout the whole country. Gradually, in the Danube City which has been known from Roman times for its enjoyment of sweet wines, depôts were established where milk could be drunk in the busy streets and on public squares, giving the City a new attraction.

The doubtless necessary encouragement of dairy farming, just at this time, however, brought with it new problems which were aggravated by the effect of the world economic depression. The situation was made worse by the fact that the prices for agricultural and dairy products had sunk far lower than the prices for technical aids to agriculture. The discrepancy between these two sets of prices became still greater from 1933 to 1937. The comparative fixity of wages and the increase in public debts accompanied by sinking prices were not inconsiderable factors in bringing about general deterioration.

Problems of agrarian policy were bound to have a reaction on industrial-commercial economics. Austrian products had to compete with those of countries which had the advantage of considerably lower agricultural prices and thus of a lower cost of living. For a land such as Austria, which in the main can only secure the goods she needs through the export of her own products, it is essential that wages, an important factor in costs, should not be affected too unfavourably by the high price of grain.





bank 34 and the Wiener Bankverein 29 branches outside the territory of present-day Austria.

Adapting the Austrian credit system to the conditions and needs of the Austrian Republic actually took more than one and a half decades. It was not until the year 1934 that this process could be considered as completed with the fusion of the Creditanstalt and the Bankverein. The enormous difficulties involved were still further complicated by the fact that the change coincided in point of time with far-reaching international crises of trade and finance, so that certain grave reactions on the Austrian economy were unavoidable. Notwithstanding this, the latter and its credit system proved themselves strong and vital enough to survive those troubled times and to prepare the ground for the favourable development of Austrian trade in general and the Austrian banking system in particular.

This development was broken off in abrupt and catastrophic fashion through the establishment of the National Socialist regime and the outbreak of the war which soon followed. Although the end of the war restored Austrian independence—in theory, at least—it left behind chaotic conditions—both figuratively and literally a heap of ruins.

In the realm of finance, the first attempts at reconstruction had to be directed towards the re-establishment of the means of payment, a solid national currency being of course a primary condition for the normal system in foreign trade became the guiding principle, the narrowing down of inter-state trade relations being shortly afterwards still more strongly emphasized through currency restrictions and the clearing agreements connected herewith. The currency devaluations of the gold-standard countries towards the end of the year 1936 created new difficulties for Austrian foreign trade. As devaluation was out of the question and an export subsidy was not considered to be a suitable political-economic instrument, the only remaining alternative was to lower the costs of production. The difficulties of such a course have been proved by practical experience in all countries, as the questions of fixed prices and wages combine to form an insurmountable obstacle to such a development.

Nevertheless Austria still succeeded in linking up with the world boom which began in 1935—1936. In the year 1937 her figures of production were 6 per cent higher than those of the last characteristic boom year of 1929. The tourist trade developed exceptionally favourably, despite the "1000 mark limit" imposed by Germany, and the volume of foreign trade was constantly on the increase.

In view of the heavy burden of debt which the country had to assume after 1918, of the increasingly protectionist tendencies throughout the whole of Europe, especially among Austria's immediate neighbours and considering the severe and long-continued world trade depression, as well as the crises of international currency,

THE BIRTH OF A NEW REPUBLIC

Vienna, for Tyrol, for Salzburg, for instance; but the cohesive force of a national conception was largely missing. Moreover, the provinces feared that an unproductive Vienna would hang like a deadweight on their economy and some of the western provinces tried to break away and to join Germany or Switzerland. In addition, the small but active Pan-German minority [5] tried to use the defeatism of the major political parties to further their own imperialist aims of a Greater Germany.

Perhaps inflation was unavoidable by the time the war ended. After all, inflations swept practically all central and eastern Europe. But the course of inflation in Austria was greatly influenced by the weakness of a government which did not believe in its own and its people's strength. This is clearly shown by the speech made by the Christian Socialist Chancellor Seipel before the Council of the League of Nations in 1922, when he tried to obtain financial help for Austria. The collapse of Austria, he said, would be "a serious blow to the Treaties of Peace, for it would afford a proof that the new Austria which they created is incapable of existence, either now or in the future". [6]

What, then, was the main sequence of the economic events of the period of inflation, and what was its significance for the further development of Austria's economy? [7]

The roots of the post-war inflation went back to the war years. The strong inflationary pressure inherited from the past would have been difficult to restrain whatever the post-war setting. Taking July, 1914, as 1, the circulation of banknotes in the Austrian-Hungarian Monarchy had risen to 13·17 in November, 1918, and the cost-of-living [8] to 16·40 in the same month.

The financial situation did not ease with the ending of hostilities. The delay in the arrival of relief supplies and

AUSTRIA'S ECONOMIC DEVELOPMENT

458 435 the disruption of production and foreign trade caused a continued and increasing shortage of goods. Though rationing of essentials was not immediately abolished, wartime controls were relaxed and the rise in prices was accelerated. This rise in prices, together with the dearth of so many industrial goods, induced many peasants to resort to a system of barter. This further diminished the flow of goods to the market, and with it the value of money.

At the same time, the socialist revolutions in neighbouring Hungary and Bavaria and the revolutionary tendencies among the Austrian people led to a mass transfer of capital to other countries. The various controls of the post-war period, designed to prevent capital movements and to preserve the precious foreign exchange for essential imports, were largely ineffective and the conspiracy against the Crown (the Austrian currency unit at that time) continued openly and in the numerous black markets. Consequently, the dollar exchange which—owing to the blockade and the practical cessation of international trade—had risen from 4·95 Crowns in July, 1914, to only 14·33 Crowns in November, 1918, began to soar rapidly (see the table on p. 25). With the dependence on imported raw materials and foodstuffs this quickly led to 652 further price increases. The governments of the day should of course have adopted drastic measures to keep 458 the inflationary pressure in check. In fact, their policy 435 intensified the inflation. Expenditure continued to run at a high level. Food subsidies, for instance, had to be continued in view of the rise in food prices. These subsidies were often quite considerable; in December, 1921, for instance, they accounted for more than half the budget deficit. Then there was the large item of civil service salaries. Not only did Vienna inherit the central adminis-

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

trative staff of a 50 million empire—and a very bureaucratic empire at that—but this staff had been considerably swollen in war time and was further enlarged by the absorption of all those Austrian officials who after the war returned from their posts in the "Succession States". To reduce this number of officials was one of the problems of readjustment which Austria had to solve; and in fact a drastic reduction was carried out later. But little was done in the first post-war period and salaries—inadequate as they were with the increasing depreciation of the Crown—were a heavy drag on the Exchequer. In other lines, too, expenditure continued to run in an unplanned and uncoordinated manner. This was perhaps an effect as much as a cause of the inflation; but it was also symptomatic of the Government's fatalism; for they considered all this as the natural expression of Austria's doom.

The Government's weakness also showed itself on the revenue side. Expenditure, however carefully planned, is bound to be high in any post-war period. The social and economic upheavals of modern wars call for a high degree of State control and interference so as to facilitate an orderly return to a peace-time economy. But if inflation is to be avoided this high level of expenditure must be matched by an equally high level of revenue—at any rate under conditions of more or less full employment. This, however, the governments completely failed to achieve. The years 1919 to 1922 were years of continuous budget deficits, as is shown by the table on page 24.

The failure of revenue to come anywhere near expenditure was due to a number of reasons. First, the rapid depreciation of the crown implied that every time lag between assessment and payment caused a reduction in the real value of the tax. This opened the way to tax evasion on a grand scale; for even the incidence of stiffer nominal rates

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

AUSTRIA'S ECONOMIC DEVELOPMENT

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Budgets	Receipts	Expenditure (Mill. of Crowns)	Deficit	Deficit in per cent of Expenditure
Jan. 1– June 30, 1919	1,339	4,034	2,704	67
July 1, 1919– June 30, 1920	6,295	16,873	10,579	63
July 1, 1920– June 30, 1921	29,483	70,601	41,117	58
July 1– Dec. 31, 1921	24,075	49,496	25,421	51
Jan. 1– Dec. 31, 1922	209,763	347,533	137,770	40

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of taxation could be avoided by simply delaying payment for a little while. It was not until much later that the Government introduced "tax units" of a stable value to put a stop to this. Secondly, stronger measures, such as a capital levy and a compulsory loan, which were intended to bring some relief in this extraordinary emergency, were greatly watered down through endless delay and the strong pressure from vested interest. By the time they were finally introduced they were in fact quite ineffective. Thirdly, the Government was slow in adjusting the prices of State-owned enterprises to the rapidly rising price level, and considerable losses were incurred as a result.

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Expenditure thus rose with rising prices while receipts lagged behind. The gap had to be filled. A loan was out of the question for nobody was willing to lend money which would probably be worthless by the time of repayment. So the printing press, which had proved a convenient servant in war-time, had to continue its work. More and more notes were printed, prices went up and with it the State's expenditure and deficit. The vicious spiral was set in motion.

The following table indicates the course of the inflation.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

THE BIRTH OF A NEW REPUBLIC

INDEX OF NOTE CIRCULATION, PRICE INDEX, AND DOLLAR EXCHANGE RATE, 1919–22

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	1919			1920		
	Index of Note Circn.	Price Index	Dollar Rate in Vienna	Index of Note Circn.	Price Index	Dollar Rate in Vienna
	1914 = 1					
January	—	28·37	16·17	24·20	49·22	176
February	—	—	17·91	26·55	—	268
March	1·66	—	21·84	28·97	—	250
April	9·57	—	26·65	30·84	58·42	200
May	11·18	—	23·25	30·14	—	204
June	13·07	—	27·00	31·98	—	149
July	15·15	31·02	31·13	34·42	63·76	145
August	16·83	—	38·00	37·29	—	181
September	18·52	—	46·83	40·67	—	241
October	19·71	—	69·58	45·44	69·60	278
November	21·90	—	99·50	51·04	—	426
December	22·41	—	135·00	56·92	—	533
	1921			1922		
January	61	92	676	365	830	6,875
February	70	100	716	465	980	7,725
March	77	112	730	532	989	6,750
April	84	111	655	616	1,089	7,625
May	89	119	604	690	1,364	8,375
June	93	119	632	815	2,339	15,450
July	100	125	738	1,166	3,308	22,900
August	109	124	1,142	1,667	7,422	51,650
September	119	151	1,189	3,034	14,153	75,050
October	148	238	3,000	4,908	12,965	73,525
November	190	374	5,850	5,959	12,158	73,450
December	265	661	7,200	6,957	11,737	71,300

Source: J. van Walré de Bordes, *The Austrian Crown*, pp. 48–50, 82–3, 115–35.

AUSTRIA'S ECONOMIC DEVELOPMENT

458 What were the effects of the inflation on Austria's economic life? It is impossible to give a comprehensive answer because an inflation of these dimensions affects practically every aspect of society. Nevertheless, some of its more important consequences must be indicated at this point.

Perhaps the most fatal effects were those on wealth and income. Wealth in money-form lost its value almost overnight. This was particularly hard on the small saver who had not the same knowledge or opportunities as the big investor or large company who quickly learned how to turn their liquid money into foreign exchange or into goods. By 1922, of course, practically everybody had realized the implications of a rapidly depreciating currency; even schoolchildren hoarded a few Swiss francs, dollars, or Czechoslovak Crowns which they had obtained in one way or other. But by that time the greater part of the savings of the middle and working classes, accumulated over decades, had melted to nothing.

458 The distribution of income, too, was greatly affected. Inflation is essentially a method of taxation which leaves
434 the actual money in the hands of the income receiver but reduces its purchasing power. It is, however, a form of taxation that falls very unevenly on different groups of the population. Some find their income reduced to a starvation level while others find their real income considerably increased. Huge profits were made as prices rose rapidly while costs lagged behind (at least before 1922 when most costs and particularly wages were more rigid than the price level). Those firms which grasped the essence of inflation at an early stage and turned these profits at once into plant, stocks of goods, or foreign exchange, emerged in greater strength at the end. Small firms, on the other hand, which had neither the financial experience nor the

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

same opportunities of quick and cheap buying, found their receipts insufficient to replace their working capital. The tendency towards concentration was thus greatly accelerated in this period. The larger concerns and the banks especially were able to expand at the expense of the smaller enterprises.

Although money wages rose considerably during the inflation, they lagged greatly behind the cost of living. This was true at least until 1922 when both prices and wages came to be fixed in terms of dollars (and thus rose automatically with every depreciation of the Crown). The following wage indices for certain categories of labour show the deterioration of real wages:

INDEX NUMBERS OF WEEKLY WAGE RATES OF WORKERS IN VARIOUS OCCUPATIONS IN VIENNA[1]

(1914 = 1)

	Brick-layers	Printers	Joiners	Metal Workers	Tailors	Cotton Spinners	Cost-of-Living Index
1921.							
Dec.	541	385	503	394	338	424	661
1922.							
Mar.	858	617	603	585	666	627	989
June	1,180	935	1,131	810	915	1,477	2,339
July	2,030	1,280	1,290	1,546	1,419	1,419	3,308
Aug.	2,910	3,270	3,019	2,162	4,481	4,675	7,422
Sept.	8,980	6,060	6,570	6,603	5,377	6,358	14,153
Oct.	11,600	7,270	8,333	8,637	7,618	7,714	12,965
Nov.	11,600	7,270	8,333	8,637	7,618	7,188	12,158
Dec.	11,300	7,270	7,666	7,786	7,085	6,837	11,737

Salary earners (such as clerks, teachers, and civil servants) were even worse off than wage earners as their incomes were revised upwards only at rare intervals.

Worst of all, of course, was the position of old-age

1 [CP CAT 116, p. 35 -- ANALYST]

pensioners and others dependent on small fixed incomes. These people were reduced to abject poverty; they were compelled to sell most of their belongings and to turn to public assistance. These reductions in income occurred side by side with the creation of a small class of new rich—the inflation profiteers who had been able, through skilful buying and selling, to amass considerable wealth.

But there was also a brighter side to the picture. In the first stage of inflation, at least, the rising price level and the flow of new money stimulated industry and quickly raised production above the stagnating post-war level. The unemployed, whose number had greatly risen after the end of the war, were almost completely absorbed into work:

NUMBER OF UNEMPLOYED RECEIVING RELIEF

	1919	1920	1921	1922
February	162,104	69,427	16,217	33,554
May	186,030	45,883	9,518	44,281
August	133,362	23,970	11,702	30,967
November	—	14,733	8,709	55,008

Production increased in almost every field. Agriculture, for instance, largely regained its pre-war productivity in this period; and agricultural production was also increased by an extension of the area under cultivation.

YIELD PER HECTARE IN QUINTALS

	1913	1919	1923
Wheat	14·8	9·3	12·6
Rye	14·7	8·0	10·8
Barley	13·9	8·8	12·7
Oats	13·5	8·0	11·6
Maize	16·3	12·7	15·1

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

Sugar production rose from about 57,000 quintals in 1919–20 to about 138,000 in 1920–1 and to 160,000 in 1921–2. Production of chemical pulp increased from 75,000 tons in 1919 to 102,000 in 1921 and 128,000 in 1922, while exports increased from 17,000 tons in 1921 to 46,000 tons in 1922. Paper production, which was 92,000 tons in 1919 and 94,000 tons in 1920, went up to 128,000 tons in 1921 and to 151,000 tons in 1922.

The industrial situation was further relieved by the crisis which followed the post-war boom in western Europe and the United States. Raw-materials which had been in very short supply in the immediate post-war period were now easily obtainable and the fall in world prices to some extent counteracted the rise in Austrian import prices due to the rapid rise in the value of foreign exchange. Imports of vital raw materials increased quickly.

There is then no doubt that the inflation accelerated the impending recovery. At the same time the extent of the inflation and the resulting distortion of the price structure prevented the reconstruction of industry on new lines. With prices and costs rising almost hourly, speculation became far more important and profitable than the careful consideration of technical improvements and of long-term development. The proper timing of buying and selling—be it labour, goods, or foreign exchange—became the main pre-occupation of business. Perhaps the main thing after 1919 was to get the productive mechanism going in one way or other. This was largely achieved in the inflationary period. But the process of readjustment was still to come.

Inflations normally stimulate exports and discourage imports. For the extraordinary demand for foreign exchange, the "flight from the currency" drives up the exchange rate at a quicker rate than the domestic price level so that exports become cheap and imports expensive.

AUSTRIA'S ECONOMIC DEVELOPMENT

458 This was precisely what happened in Austria. But while
433 exports increased more than imports the balance of trade
439 continued to be unfavourable.[10]

This was partly due to the fact that production in Austria was as yet insufficient to provide exports on any scale; partly because Austrian exports have a high "import content" so that every increase in exports involves increased imports. Also, the fall in world prices in 1920 tended to reduce the margin between the Austrian and the world price level.

Unfortunately, we have no statistics on invisible exports. But there is every indication that these exports increased considerably. Vienna soon regained her importance as a transit centre: by 1920, the weight of goods passing through the great municipal warehouses had already increased over three-times as compared with 1913. The Viennese banks again played an important part in the "Succession States" and the Balkans, and the low value of the Crown attracted an increasing number of foreigners to Austria. The number of foreigners arriving at hotels in Vienna rose from about 230,000 in 1920 to about 330,000 in 1922. On all these scores a considerable income must have accrued to Austria which helped to fill at least part of the gap on the balance of trade.[11]

458 But the low value of the Crown and the insatiable
471 hunger for foreign exchange did not only stimulate current exports. It also led to the sale of capital. Real estate, houses, and industrial shares were sold to foreigners and part of Austria's industry thus came under foreign control. It was in this period that a decisive parcel of shares of the Alpine Montan Gesellschaft, Austria's most important heavy industrial concern, passed into the hands of a group of Italian capitalists from where they wandered on until they became the property of one of the firms belonging to

[CA. p. 35, CATEGORY 11b -- ANALYST]

the German Steel Trust. We shall see later what ominous political and economic consequences flowed from this transfer of control.

Summing up, it may be said that the years of inflation brought a marked revival in the sphere of production and foreign trade; but that little was accomplished in the way of urgently needed structural adjustment.

One further result of the inflation should be mentioned. In Austria, as elsewhere, the internal National Debt was practically wiped out. No doubt this put a heavy burden on some classes of the population, particularly the small saver. No doubt, the inflation involved a heavier burden of external debt than would otherwise have been the case. But the disappearance of the National Debt undoubtedly relieves a government of some headaches when it comes to the point of drawing up a budget. And to balance the budget was one of the main tasks before the Government if the inflation was to be brought to an end.

THE STABILIZATION OF THE CURRENCY

We have seen that the Austrian Government pinned all its hopes of overcoming the monetary chaos on foreign help. A foreign loan would both help to balance the Government's budget and to stabilize the foreign exchange rate, the barometer of the country's confidence in the Crown.

Negotiations for such a loan had started as early as 1920; but to secure a loan was by no means a simple matter. The allied governments expected to receive reparations from Austria, not to make loans to her. They pointed to the relief credits they had already granted (but which had of course been used up for "unproductive" relief) and were unwilling to make any further advances. Private investors, on the other hand, were unwilling to

CHAPTER III

READJUSTMENT AND CONSOLIDATION

READJUSTMENT

458 IN spite of certain improvements Austria had failed, during the period of inflation, to adapt its economic structure to the new environment. In fact, the inflation tended to add to these underlying difficulties. The easy flow of money and the enormous speculation in prices and foreign exchanges, for instance, greatly increased the number of commercial establishments of all types. It was clear that these mushroom growths could not survive in the long run.

But these, and other necessary adjustments, were hampered by the absence of any clear economic policy which could have minimized the frictions involved. There were of course a large number of *ad hoc* measures to help here and to fill a gap there. But there was never a consistent and conscious approach to the problem as a whole. If, in spite of this, considerable progress was, in fact, achieved in the 'twenties, this can only be regarded as evidence of the vitality which Austrian economic life had preserved through all the difficult years.

458 The immediate result of the stabilization was indeed to cause a severe crisis. Industry had been geared to the 464 expectation of quickly rising prices, encouraging many speculative and unsound developments. These had now to be liquidated and a general process of economy and rationalization set in which caused a great increase in unemployment.

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

CHAPTER IV

THE EFFECTS OF THE WORLD CRISIS

AUSTRIA'S economic development in the 'twenties was, as we have seen, largely coloured by her special post-war problems. But when, in the autumn of 1929, the spectacular American boom came to an abrupt end, and depression spread like a wild fire from one country to another, economic events in Austria became far more "synchronized" with those elsewhere. Austria's economic system had largely returned to normal conditions; and it was so integrated into world trade that her experience and her problems were now far more like those of other countries. Events in Austria between 1929 and 1933 thus followed the general world pattern. But Austria was particularly sensitive to outside economic shocks. There are few—if any—countries which are or could be wholly self-sufficient; they all depend to some extent on foreign trade and are therefore affected by the loss of export outlets. In Austria, however, foreign trade played an exceptionally large part. An estimate published in the *German Statistical Year-book* puts imports and exports (in brackets) per head of the population in 1929 at RM. 534 (414) for Switzerland, 288 (193) for Austria, 233 (201) for France, 210 (211) for Germany, 168 (172) for Czecho-slovakia, 118 (81) for Italy, 90 (88) for Hungary, 46 (44) for Yugoslavia, 44 (34) for Bulgaria, and 41 (40) for Roumania. Another estimate puts the percentage of manufactured goods produced for export in Austria in 1931 as high as 45 per cent. The drastic fall in world

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458 [439] purchasing power, followed by an orgy of tariffs, quotas, and currency wars, was therefore bound to hit Austria severely. Moreover, Austria was particularly vulnerable owing to the fact that the financial problems inherited from war, inflation, and foreign borrowing suddenly became acute and led to a severe crisis.

The turning point, as in most other countries, came in the third quarter of 1929. Prices tumbled down, production declined, unemployment grew, foreign trade vanished. The following figures indicate this process of decline in Austria and some other countries.

INDEX OF INDUSTRIAL PRODUCTION

[433] (1929 = 100)

	1929	1930	1931	1932	1933	1934
Austria	100	85	70	61	63	70
Czechoslovakia	100	89	81	64	60	67
Hungary	100	95	87	82	88	99
United Kingdom	100	92	84	84	88	99
U.S.A.	100	81	68	54	64	66
Germany	100	86	68	53	61	80

PERCENTAGE OF WORKERS UNEMPLOYED [1]

[464]

	1929	1930	1931	1932	1933	1934
Austria	12·3	15·0	20·3	26·1	29·0	26·3
Czechoslovakia	2·2	4·5	8·3	13·5	16·9	17·4
Great Britain	10·4	16·1	21·3	22·1	19·9	16·7
U.S.A.	8·2	14·5	19·1	23·8	24·3	20·9
Germany	9·3	15·3	23·3	30·1	26·3	14·9

1/7 [CA. CATEGORY III, p. 52 - 63 -- ANALYST]

THE EFFECTS OF THE WORLD CRISIS

IMPORTS AND EXPORTS

Value in national currencies (000,000's omitted)

		1929	1930	1931	1932	1933	1934
Austria	Imp.	3,263	2,699	2,161	1,384	1,148	1,153
	Exp.	2,189	1,851	1,291	764	775	857
Czecho-slovakia	Imp.	19,942	15,680	11,725	7,459	5,799	6,349
	Exp.	20,485	17,460	13,106	7,329	5,843	7,267
United Kingdom	Imp.	1,111	957	797	651	626	680
	Exp.	729	571	391	365	368	396
U.S.A.	Imp.	4,339	3,114	2,089	1,325	1,433	1,636
	Exp.	5,157	3,781	2,378	1,576	1,647	2,100
Germany	Imp.	13,447	10,393	6,727	4,666	4,204	4,451
	Exp.	13,483	12,036	9,599	5,739	4,871	4,167

These figures clearly demonstrate the extent and the universality of the depression.

The decline in foreign trade, which was everywhere far more severe than the decline in production, affected Austria gravely. The increasing adoption of "beggar-my-neighbour" policies greatly restricted outlets for Austria's manufactured goods. Tariffs rose to incredible heights in central and south-eastern Europe; quotas, import prohibitions, and a hundred and one forms of administrative protectionism blocked the flow of goods.

Austria was compelled, in turn, to resort to increasing protectionism and her agriculture, in particular, was increasingly cut off from the world market. Home food prices were, in fact, maintained much more than prices of manufactured goods, and this resulted in an increase in agricultural production, contrasting strangely with the persistent decline in industrial output.

The workers, of course, had now to pay relatively higher prices for their essential needs. On the other hand, the stability and purchasing power of another important

458 section of the population was substantially preserved. Even so, to the extent that prices *did* fall, the real burden 435 of debt was increased. The smaller peasants, particularly those in the poorer mountain districts, suffered most and the Government was more than once forced to come to their assistance.

439 There can be no doubt that the growing protectionism reduced the advantages of international division of labour. But there was little choice in the circumstances. The loss of income from exports had to be replaced by home-produced income. While exports declined rapidly (until in 1933 they were only 35 per cent of the 1929 level [2]). Austria's readjustment of production allowed her to cut down imports in the same period to 35 per cent of the 1929 level. This went a long way in solving the long-standing balance of trade problem; but the way in which it was solved was hardly the ideal one. The import surplus, which had amounted to over 1,000 million schillings annually in the period preceding the depression, fell to 848 million schillings in 1930, 870 million schillings in 1931, 620 million schillings in 1932, 373 million schillings in 1933, and 296 million schillings in 1934.

453 The depression thus took its "normal" course in Austria: a fall in the national income and in production, a rise in unemployment, misery, and social tension, accompanied by frantic but unco-ordinated efforts by all governments to stop the catastrophe and to readjust the domestic economic structure. Austria travelled the same road as the rest of the world. But half-way through the crisis, in the beginning of 1931, there occurred an event which suddenly revealed, not only Austria's financial weaknesses, but those of the whole world. To this event, the breakdown of the Credit-Anstalt, we must now turn.

There were two major financial problems in Austria.

2 [CF CATEGORY 116, P. 63 -- ANALYST]

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

CHAPTER V

RECOVERY

TOWARDS A BALANCED NATIONAL ECONOMY

IF the world depression had dragged Austria down with it, the subsequent world recovery reacted beneficially on her economic life. The deflationary policy pursued by the Government after the financial shocks of 1931 tended, indeed, to retard the upswing in Austria. Nevertheless, from the second half of 1933 onwards, there was a clear and unmistakable upward trend in all spheres of economic life.

Industrial production, which had fallen to 61 per cent of its level in 1932, increased rapidly until it reached a new record level in 1937, the last year of Austria's independence.

INDICES OF INDUSTRIAL PRODUCTION

(1929 = 100)

	Austria	Czecho-slovakia	Germany	Great Britain	U.S.A.
1932	61	64	53	84	54
1933	63	60	61	88	64
1934	70	67	80	99	66
1935	80	70	94	106	76
1936	86	80	106	116	88
1937	103	96	117	124	92

This increase in production naturally led to some reduction in unemployment. Unemployment figures,